

MEMORANDUM FOR:

The Director

Executive Registry

77-3418/4

Should military-economics be raised during your discussion with Secretary Brown, we have provided in the attached memorandum some brief comments and background on his memorandum of 20 May to you on this topic.

[Redacted Signature Box]

for Sayre Stevens
DDI

Date 24 MAY 1977

FORM 101 USE PREVIOUS
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OSD REVIEW COMPLETED

(EXECUTIVE REGISTER)

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Approved For Release 2005/01/10 : CIA-RDP80M00165A001800110013-0

24 MAY 1977

MEMORANDUM

SUBJECT : Military Economic Analysis

REFERENCE: Secretary of Defense Memorandum to
DCI of 20 May 1977

1. In the referenced memorandum Secretary Brown took the opportunity, in thanking the CIA for its preliminary analysis on NATO-Warsaw Pact defense spending, to state his views concerning the CIA's work in military economics. In brief he

- reiterates the continued interest within Defense in military economic analysis because it contributes to our understanding of the long term competition and plays a significant role in assessing the military balance between the US and Soviet Union.
- finds the dollar estimates to provide the best, single aggregated comparative measure of US and Soviet defense efforts.
- reaffirms the value of the ruble estimates.
- identifies nine areas of further research which are of priority interest to Defense. These areas are in addition to the primary dollar and ruble cost estimates of Soviet defense activities.

2. The nine areas contain no surprises. CIA currently has scheduled research efforts in each of the areas. Adequate treatment of all nine areas within the next year, however, will not be possible within existing resource constraints. Andy Marshall understands this. Completion of specific projects

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in the areas involving comparative analysis (1, 4, 5, 6, and 7) are also dependent upon the participation of Defense in providing US data. While such participation has been forthcoming in the past, these projects expand the scope of previous projects and will require a greater commitment of Defense resources than previously.

3. The continued interest shown by Defense in military economics is encouraging. Their statement of priorities which generally accords with our own, is useful in gauging consumer interest.

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Remarks:

DCI may wish to mention when he meets
 with Secretary of Defense 1700 Wednesday
 25 May.



D/Executive Secretary

23 May 77

Date

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THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

May 20, 1977

MEMORANDUM FOR THE DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: Military Economic Analysis

I would like to thank you for the preliminary analysis of non-U.S. NATO and non-Soviet Warsaw Pact defense spending that you provided recently. My views regarding future work in this and other areas are reflected in the attachment to this memo.

Economic analysis has come to play a significant role in our assessment of the military balance between the U.S. and the Soviet Union. In conjunction with physical measures of the balance and an understanding of such qualitative factors as military doctrine, training practices, strategy and deployed technology, the economic estimates contribute to our understanding of the long-term competition with the Soviet Union. The purpose of this memo is to reiterate the continued interest within Defense in military economic analyses, and to provide guidance as to the direction of such analyses that I would consider most useful.

We find the reports and analyses currently being produced in the area of military economics to be very useful; in fact, they are the basis of the comparative economic analyses employed by Defense. The dollar estimates provide the best, single aggregated comparative measure of U.S. and Soviet defense efforts. The ruble estimates are of value in assessing current and projected Soviet economic problems, the way they view their military forces and goals, and the ability of the Soviets to compete with us over the long term.

Almost all of the projects suggested in the attachment are continuations, extensions or refinements of the work already underway at CIA, DIA or sponsored jointly through the Military Costing Review Board. The suggested activities are listed according to the priorities agreed to by several interested OSD elements, with the highest priority activity listed first.

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The description of each project indicates the general nature of our interest, but is not intended to provide an exhaustive specification for the content of each task. Andy Marshall will supply any additional guidance and specification that might be needed or useful.

Harold Brown

Attachment
a/s

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WHEN WITH ATTACHMENTS

MILITARY ECONOMIC ANALYSES

1. Comparative delivery and inventory statistics for major U.S. and Soviet weapon systems. Economic estimates are most useful when used in concert with such non-economic measures as estimates of physical quantities like manpower, size of facilities and weapon stockpiles and deliveries. Long-term trends of 20-30 years in both weapon deliveries and inventories should provide a better understanding of comparative weapon investments, modernization and design age. It would be most useful to have such time series for the NATO and Warsaw Pact nations as well as for the U.S. and USSR. Both the CIA and the appropriate DoD elements should establish procedures by which the data required for periodic reporting would be made available.
2. Broader assessment of the "burden" of defense. An accurate appraisal of the portion of total resources devoted to the Soviet defense program is only a single -- and probably not the most important -- factor in assessing the ability of the Soviets to continue, or perhaps accelerate, the expansion of their military forces. For example, the high priority accorded to defense production allows the MOD to preempt parts and materials, accept only the high-quality products and employ some of the best trained people. Similarly, the defense support -- and subsidies -- provided by other ministries, such as communication and transportation, should be included. The dislocations thus shifted onto the non-military sectors should be costed if we are to understand more about the ability of the Soviets to support, or expand their defense effort into the future.

Adjustment of GNP estimates to account for "second economy" may be increasingly important. In addition, this issue should address the perceptions that elements of Soviet leadership holds of the defense burden.

3. Independent checks of the economic estimates. Alternative costing methodologies should be sought to provide independent corroboration of the "building block" costing estimates. For example, greater exploitation of emigre's or other human sources might usefully supplement the formal estimation methods. Also, it might be possible to address more fully the inter-relationships between the defense and the civil sectors of the Soviet society through such methods as econometric modeling. Further, it is possible that the investigation of alternative methodologies could yield some simpler methods by which the dollar and ruble costs could be estimated without severely degrading the accuracy of the estimates.

CLASSIFIED BY OSD/Net Assessment
SECRETION TYPE SECRET COMMUNICATION
SECRETION CODE SECRET ORDER 11652
AUTHORITY EXECUTIVE ORDER 11652
YEAR 1 EXEMPTIONS AND DECLASSIFIED ON DEC. 31, 1983

4. Sizing comparisons of selected US/USSR balances. Assessments of the major US/USSR balances have concentrated on comparisons of manpower, weapon system quantities, and mission differences, with a growing tendency to incorporate intangibles such as doctrine, training and tactics into the calculus. The addition of economic measures would be a useful addition to our understanding of those balances.

To begin such an effort, I would suggest an economic comparison of the Strategic balance; then, perhaps, the Central Front, Military Investment, Maritime, Power Projection and Northeast Asia balances might follow.

5. Ruble-based US/USSR sizing comparison. The dollar-based sizing comparisons have been criticized as overstating the amount by which the Soviet total defense program exceeds that of the U.S. because of the "index number problem." Reasonably detailed ruble-based comparisons would understate the Soviet lead for the same reason, but would put a floor to the size of the difference, thus both blunting the criticism of exaggerating the difference and explicitly providing a range within which we can be more confident that the difference lies. We would hope that an approach somewhat more aggregated than that used in the current dollar-based analysis, and a correspondingly more modest effort, would be appropriate.

6. Reducing "Sovietization" assumptions in the sizing comparisons. Currently, the dollar comparisons tend to understate the cost to the U.S. if we were to replicate the Soviet defense program because, in some cases, Soviet, rather than U.S., practices are used; personnel related practices such as retirement, dependent care, and creature comforts are examples as may be some training expendables. In short, a re-examination of the logic of SCAM should be undertaken to assure that the methods are consistent --- both internally and with the purposes for which the dollar and ruble estimates are prepared.

7. Costing the US-NATO/USSR-WP defense programs. I continue to believe that it is important to have dollar cost estimates for total NATO and total Warsaw Pact. That is, U.S. and NATO estimates should be additive, as should those of the USSR and NSWP, to produce a full alliance comparison. Further, this analysis should be supplemented with indicators of the proportion of key resources (e.g., steel, oil, gas, electric power) allocated to defense. It might be appropriate to initiate such a refinement effort by looking at just one non-U.S. NATO and one non-Soviet WP nation.

8. Cost of the Sino-Soviet buildup. DIA is in the process of completing a costing analysis of the Soviet defense effort deployed along the USSR-PRC border. It would be valuable to have a complementary study focused more on such questions as the transferability and mobility of border forces to other areas, the allocation of central effort (e.g., headquarters, support, R&D) to those forces, and the appropriate cost differential that should be applied because of the climatic and locational extremes of the border forces.

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9. Costing the Soviet civil defense effort. During the past months, there has been a great deal of public discussion of the Soviet civil defense program. An appreciation of the magnitude of the resources devoted to this program, together with the current studies of its effectiveness, will help us to understand its implications for the strategic balance.

71-3418/2

DDI #

701-77/2

23 APR 1977

MEMORANDUM FOR: The Honorable Harold Brown
The Secretary of Defense

SUBJECT : Costs of NATO/Warsaw Pact Defense
Activities

1. The attached memorandum is in response to your letter of 15 February requesting estimates of the costs of non-Soviet Warsaw Pact (NSWP) and European NATO defense activities. This study was prepared by the CIA/DIA Military Costing Review Board, with the assistance of your staff (P&E).

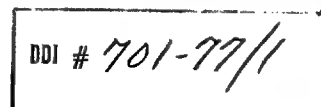
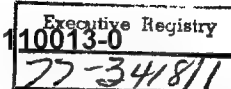
2. The memorandum presents an estimate of the dollar value of NSWP defense spending and compares this with the dollar value of the defense budgets reported by the European countries of NATO. The limitations of the information which was used to develop the estimates are noted, as are the difficulties that would be encountered in developing more accurate estimates.

3. It is my understanding that Mr. Andrew Marshall of your staff will be in contact with my people regarding the need and priority for future work in this area.

/s/ Stansfield Turner

STANSFIELD TURNER
Admiral, U.S. Navy

Attachment:
As Stated



Defense

21 APR 1977

MEMORANDUM FOR: Director of Central Intelligence
VIA : Deputy Director of Central Intelligence
FROM : Sayre Stevens
Deputy Director for Intelligence
SUBJECT : Costs of NATO/Warsaw Pact Defense
Activities

1. Action Requested. The Secretary of Defense has asked for an estimate of the costs of NATO and non-Soviet Warsaw Pact military activities.

2. Background: This is the rough estimate of the costs of NATO and Warsaw Pact defense activities promised by mid-April. It was prepared by the Office of Strategic Research and coordinated with DIA.

Mr. Andrew Marshall, Director of Net Assessment, has the action in this matter for DoD.

3. Recommendation: I recommend that you send the attached package to the Secretary of Defense.



Sayre Stevens

STAT

Attachment:
As Stated

(EXECUTIVE REGISTRY FILE *Defense*)

SUBJECT: Costs of NATO/Warsaw Pact Defense Activities

CONCUR:

STAT

[Redacted]

Deputy Director for Intelligence

21 APR 1977

Date

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ATTACHMENT

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Comparative Sizing of NATO Europe and Non-Soviet Warsaw Pact Defense Activities

Summary

1. We have not done sufficient research to make high confidence estimates of the comparative costs of European NATO and non-Soviet Warsaw Pact (NSWP) defense activities. We have made preliminary aggregative estimates which are based on the budgetary submissions of the NATO countries and on adjustments to the announced NSWP defense budgets.

--These estimates show the dollar valuation of European NATO military activities over the 1970-1976 period to be about five times that of the NSWP countries.

--If military personnel are broken out of the totals and costed separately, using US pay rates, the NATO/Warsaw Pact ratio is about three to one.

While the estimates for the NATO countries that underlie these comparisons are better than those for the NSWP countries, both are subject to a wide range of error. We have more confidence in estimated manpower comparisons.

--We estimate that the European NATO countries hold a two and one-half to one advantage in military manpower.

2. Detailed estimates of the costs of NSWP defense activities could be made using a direct costing methodology. This would require a sizable and sustained research effort, however, to develop the physical data on deployed forces, weapons deliveries, operating practices, and research and development in sufficient detail for costing purposes.

Secret

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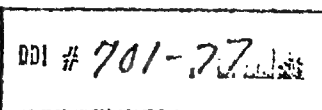
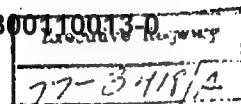
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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505



1 MAR 1977

MEMORANDUM FOR: The Honorable Harold Brown
The Secretary of Defense

SUBJECT : NATO/Warsaw Pact Defense Spending

1. Thank you for your thoughtful letter of 15 February. We are pleased that you see our comparative analysis of US and USSR defense activities as being important. This analysis is the result of a high priority effort which has been underway for more than a decade involving a substantial amount of both collection and analytical resources.

2. Further, I hasten to accept your assessment that similar comparative costing of NATO and Warsaw Pact military activities is of particular interest and importance today. I believe that we can meet your deadline of mid-April with rough comparisons of the dollar costs of total defense activities of the non-US NATO and non-Soviet Warsaw Pact (NSWP) nations. The estimates for the NSWP countries would have to be based on their announced defense budget figures, however, and thus would be subject to a much wider range of uncertainty than our estimates for the USSR. The estimates for NATO would also have to be based on budgetary data but would have a smaller range of uncertainty than those for the NSWP countries. We could also do a direct costing of pay and allowance costs based on available estimates of military manpower within the required time frame.

3. To develop more confident estimates of the costs of total defense activities and useful comparisons of military investment and non-personnel operating costs will require a sizable research effort. Unfortunately the physical data bases on deployed forces, weapons production,

operating practices, and military research and development necessary for such a study do not now exist in the required detail. Though it will mean reprogramming resources, if it is considered necessary we are willing to undertake the effort to collect the data which is needed. Even so, the task will take some time as well as effort both now and in the future if interest in this topic continues. We could probably develop an initial, preliminary comparison by late fall.

4. I should caution you that devoting extensive resources to this task will have to be at the expense of ongoing work on US/USSR comparative analysis and other priority tasks, since the work will fall on the units now engaged in those activities. In addition we would need your assistance in developing the NATO data base. This would entail your making personnel with knowledge of NATO forces and budgets available to work with us in the preparation of the initial estimate.

5. In view of the complexity of the task and the amount of resources involved, I propose that your specialists and mine get together to work out the details of where we go from here. If this meets with your approval please have your point of contact notify Mr. [redacted], Chairman of the CIA/DIA Military Costing Review Board, on [redacted] and we will begin the work.

E. H. Knoche

E. H. Knoche
Acting Director

Copies furnished:
Secretary of State
Assistant to the President
for National Security Affairs
Chairman, Joint Chiefs of Staff

SUBJECT: NATO/Warsaw Pact Defense Spending

CONCUR:

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Deputy Director for Intelligence


28 FEB 1977

Date

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D/OSR:  (28 February 1977)

THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

FEB 15 1977

MEMORANDUM FOR THE ACTING DIRECTOR, CENTRAL INTELLIGENCE

SUBJECT: NATO/Warsaw Pact Defense Spending

This memorandum reaffirms the importance the Department of Defense attaches to both the continuation of the CIA's recent efforts to systematically compare U.S. and Soviet military programs and to the expansion of such efforts to include other countries important to U.S. national security planning. Comparative costing of NATO and Warsaw Pact military programs is of particular near term importance.

CIA's dollar cost comparisons of U.S. and Soviet defense activities have become a focal point of attention in the current public discussion of trends in the military balance. Unfortunately one result of this highlighting of U.S. and Soviet efforts has been a de facto de-emphasis of the relative defense contributions of the non-US NATO and non-Soviet Warsaw Pact nations.

In line with the Carter administration's stated intention of increasing the U.S. commitment to NATO I believe it is important that we start to place examination of the military balance into better perspective by ensuring adequate attention to NATO vs. Warsaw Pact. Accordingly, I request that you initiate work to develop a dollar cost comparison of total NATO and total Warsaw Pact defense activities using a methodology as similar as feasible to that employed for the US/USSR analysis.

I recognize there are some difficult methodological and data problems associated with this effort. Aside from the difficulties of cost comparisons in different economic systems and the question of how cost translates into effectiveness in a given country, any use of the results would also have to examine questions of additivity of capability in each alliance. Among other matters this involves the degree of common planning, interoperability, and reliability of the forces. Nevertheless, it would be most desirable to have an interim report, even if its conclusions are tentative, completed by mid-April 1977 for use in preparing for the Spring NATO ministerial meetings. My staff will of course make available to you any relevant data on allied forces which may be in hand.

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If this deadline is too constraining for a complete analysis, initial efforts should be focused on comparisons of military investment (RDT&E, procurement of weapons and equipment, and construction of facilities), with personnel and other operating costs to follow by mid-May.

Harold Brown

cc: Secretary of State
Assistant to the President for
National Security Affairs
Chairman, Joint Chiefs of Staff